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# EFFECT OF GOVERNMENT CONTROL ON MARKETING METHODS AND COSTS<sup>1</sup>

BY B. H. HIBBARD  
*The University of Wisconsin*

Before modifications were made or attempted two views were prevalent concerning the marketing situation. The first was the view held widely by the people who are dominated largely by the instincts of the reformer, the people who want something done, but who may not know just what. This class of people have strong convictions that the marketing system is hardly a system at all; that it is, to speak mildly, chaotic. Many who used less moderate language characterized it as robbery, organized and unorganized. Middlemen were wicked, producers and consumers were a set of dupes, victimized by anyone and everyone who bought from or sold to them. The only hope for improvement was in revolutionary methods whereby the machinery of trade should be taken out of the hands of those engaged in it and controlled by those whose interests, either as producers or consumers, are involved.

The second view was held by the *laissez-faire* thinkers who believe that while the market may be somewhat chaotic, the reformers are quixotic, and thus the least done, the soonest mended. This *laissez-faire* class is impossible of designation, being found in all walks of life, and in every avenue of industry. It is safe to say, however, that those most likely to be disturbed by the reformers are, as a group, most favorably disposed toward the consoling doctrines of *laissez faire*. They are convinced that there is an adequate business reason for the apparent waste in shipping wheat from Kansas to Minneapolis, and from Minnesota to Kansas City at the same moment. They are confident that the packing interests would not have been so concentrated had it not been for the economic good of the country as a whole. They justify the Standard Oil Company on the ground of efficiency, and the wasteful method of delivering groceries on the ground of catering to the wants of fastidious customers who must get their money's worth, or, forsooth, they would do their trading in some other manner.

<sup>1</sup> This paper is in the nature of a preliminary sketch of work which is being done by the Committee on Markets, of which Prof. L. D. H. Weld is Chairman. It is planned to publish the completed reports as soon as they can be prepared.

As usual the truth is to be found somewhere between these two extremes. Thus the scientific investigator is sure in his findings to lack the fire and heat of the reformer, and yet to incur the displeasures and contempt of those who are convinced that marketing men are wholly competent to cope with marketing questions and that any interference from the outside means so much needless friction and expense.

With the entrance into the war in 1917, the federal government undertook, through the Food Administration and the Bureau of Markets to meet the exigencies of the case. The efforts in regard to marketing took one or more of three forms: (1) control over the goods to be marketed, (2) control over, or influence upon, prices and profits, (3) control over the processes of the market. These controls were made possible through a series of licenses imposed upon the agencies of commerce. The notable instances involving more or less of each of these principles are the control of wheat, flour, sugar, coal, wool, and in a much modified sense the control over meat and dairy products.

#### *Control Over The Goods*

The control over goods was made possible through the creation of a government grain corporation in the case of wheat; a purchasing agency for meat, and meat products; sugar was controlled by a national sugar committee which coöperated with an international sugar committee; regional milk commissions with virtual price-making power were appointed. All of these agencies were under the authority of the Federal Food Administration. Through the same channel the wholesale trade, and the retail businesses reaching \$100,000 in annual transactions, were subject to a system of licensing. The Fuel Administration was separate from the Food Administration, but quite similar in its workings. Coal prices were set, and the distribution of coal controlled.

Actual, and well-nigh complete, control was exercised with respect to wheat, flour, sugar, coal, and wool. Control was possible in these cases while it was hardly so in others. For example, wheat could be controlled through exportation and milling primarily. The sale of flour depended on the coöperation of the retail trade and the consumers to a great extent, yet the machinery was eventually well perfected for requiring the sale of substitutes in equal quantities with wheat flour. Control of meat and meat products so far as export trade was concerned was complete. The control of the domestic use of meat was far from

complete. In fact it was all but impossible to control the consumption of meat due to the wide distribution of meat animals over the country.

The sugar control was relatively easy of administration on account of the method by which it is brought on the market. A large part of the supply is imported and hence is centered in a few hands, while that which is made in this country goes through a relatively small number of factories. Thus the government could begin at the source and keep the sugar in hand till it reached the retailer, and in case the retailer failed to live up to the requirements further supply could be withheld from him.

One of the best instances of control is that of coal. Coal is a prime necessity. It is produced in relatively few places, all of which are known. Very little of it can be used without shipment. Having control over the railroads, it was but another step to control the shipment of the coal. In this manner it was possible to send coal where it was needed, and after the price was fixed the distribution on the basis of needs was not difficult. The real difficulty was in getting the coal mined and hauled.

The wool control was not put into effect until the spring of 1918, but it proved feasible. Wool cannot be used to any great extent locally without a milling process. It all comes to the market, and the government takes charge of the entire marketing machinery. The government thus gained control of the whole wool clip of the year. By so doing two things were accomplished: (1) the government could direct the manufacture of the wool for military purposes; (2) the price was set. It is not so clear how the government is going to dispose of wool which now it does not want.

It was the belief of the Food Administration that the exigencies of the case were such that goods must be sent to people who needed them rather than to those who were most ready to pay for them. This is a species of rationing. It would be extremely difficult to determine that a given amount of any commodity, based on previous sales, should be sent to each local market without first knowing that it would be in demand. Coupled with the effort to get goods to the points where they were most needed there has been another effort to consider the problem of the cost of transportation. Coal has been handled in zones, wheat in zones, and in one or two notable instances state councils of defense have put on campaigns to induce people to use home-grown products

of all kinds to save needless hauling. We have learned that free competition is not sparing of effort in meeting trade demands, and in some instances the methods are not in accordance with social economy, at least of economy of a very literal sort. The demand for the above-named articles is, however, so inelastic that there was no question as to willingness of the people to take them. There were not many Hotspurs to "cavil at the ninth part of a hair." The policy of complete control could not have been applied to a great many things. For instance, not to potatoes, over which there was much controversy; not to milk, on which we have such detailed history. It could be applied only to bare necessities, and only these did the Food Administration undertake to subject to such drastic measures. Until some painstaking research is made to disprove the thesis, it will be very generally believed that under the stress of war the socialization of the markets to this extent was a success.

#### *Control Over Prices and Profits*

The whole effort of the government during the past eighteen months, with respect to markets, has been to establish fair prices at a time when the forces of competition were disorganized and not in shape to give to society the benefits of their influence. But, despite this effort, competitive forces were in such a plight as to give great rewards to some at the expense of others, and at the same time to hinder the working of all forces in the prosecution of the war. However, the policy of the government with respect to price regulation and to other plans and processes of economic life was not constructive. On the other hand it made a Herculean effort to meet an emergency, which was more like the frantic struggles of sailors to stop a leak while at sea than the deliberate program of remodelling at leisure a damaged craft in dry dock.

Wars create an abnormal demand for certain goods. The World War was no exception. At the same time production was greatly reduced. That the prices of most necessities were destined to rise greatly was very generally recognized. The government planned at once to assume large authority in the matter. The Food Administration Act gave the President power especially to fix the prices of coal, coke, and wheat. At the same time he was empowered to fix the margins of middlemen on any commodities which might be termed necessities. This latter power was granted apparently with a view to the control of prices of com-

modities after they left the producers' hands rather than to setting prices at which goods should be produced or sold. The feeling was strong against the boosting of prices along the way from the producer to the consumer. Special committees were promptly set at work to determine the prices of wheat and coal. Later special commissions worked at other price fixing, prominent among which were the milk commissions, and the committee on hog prices.

One of the most noticeable phases of the whole episode of price fixing was the almost naïve dependence on the cost-of-production theory of value on the part of those charged with the duty of naming the figures at which goods should sell. "How much did they cost?" was all but invariably the primary question asked. In the case of certain middleman margins in which the government has concerned itself the cost was as a rule ascertainable, and, moreover, fundamental. In the case of the production of coal, milk, wheat, and live stock, it was not ascertainable; and, were it for a given time to be known just what costs were incurred, for example, in the production of each quart of milk sold on the Chicago market, it is by no means clear what the price would, or should, be. It is reported that in the case of coal the attempt to give some of the small producers a living price resulted in allowing handsome profits to larger producers. This was true also of millers; the able business men in that work made more money than ever before. From the standpoint of a student of theories of value, nothing could have been staged that would have borne out the views of modern economists more acceptably than the abortive attempts to base prices on cost of production, such as have been made during the past eighteen months. At the same time it so happens that the prices which have best stood the test of trial in practice are those which, due to lack of time and facilities for making the necessary inquiries, were in no sense based on cost of production; as the price of wheat, which remains practically unchanged for three years, and the price of coal, which has been several times readjusted in order to bring out the required supply.

The control over profits has taken several forms. In the case of price-controlled commodities, the government has allowed certain prescribed percentages as a maximum profit, but, contrary to popular opinion, has not guaranteed them. The manufacturers of condensed milk were allowed to make a 10 per cent profit, but at times they actually suffered losses. So also with butter and cheese dealers. The big packers were limited to 9 per cent on meat handled.

Buying and selling within the trade was in many instances restricted to one such transaction, unless it could be shown that the purpose was moving the goods, not mere profit. The margins to be charged by wholesalers and retailers were suggested in some cases, prescribed in others. One of the main purposes of the Food Administration was to bring the whole influence and strength of the government to bear on prices in such a manner as to allow for expansion demanded by price inflation due to natural causes, and to prevent price increases which meant individual gain to some and corresponding loss to others. Speculation is the word which covers a large part of this field.

The buccaneers of trade were to be kept from speculating on the necessities of life and war. To this end futures were forbidden in some instances, and limited in others. As Mr. Hoover stated it: "The purpose of the Food Administration is to regulate profits to a pre-war normal basis in order that no greater tax shall be placed upon the consumer by virtue of the high prices than bears a proper relation to producers' receipts." Speculating was discouraged in all instances, prevented in some. Hoarding, a kind of speculation, was prohibited, and where discovered was punished.

Among the best instances of price control are those respecting sugar, coal, and flour. In all reason, we should have been paying two, three, or four times as much for sugar during the past year and a half had it been left to the mercy of speculators and profiteers. Coal would have reached unheard-of prices, at least not heard of in America, had a free reign been given the trade. Wheat prices jumped to about \$3.50 a bushel under the combined influence of excited foreign buyers and enthusiastic domestic speculators in May, 1917. The government price on wheat was \$2.20 and proved adequate. Correspondingly, the price of flour fell from \$17 a barrel to \$11. That this was a beneficial act to the country at large cannot be doubted. That flour would have remained at the high point of 1917, or gone still higher, is the belief of many good judges.

The control over hog prices has not followed an even or satisfactory course, yet the farmers were induced to raise the hogs; the government has used its power to hold prices up, and to keep them steady; the price of pork has not gone out of reach.

We were just getting a real start in price making when the occasion for it seems to be disappearing.

*Control Over the Processes of the Market*

The control over the processes of the market have of necessity been indicated to some extent in the above discussion. In general it may be said that it was not the purpose of the government to reform the marketing methods. It was not a time to try many experiments such as were likely to call out widespread opposition. There was no "Eliminate the middleman" campaign. On the other hand, there were, more or less under public or semi-public influence, a great number of municipal markets established; a considerable number of coöperative delivery systems inaugurated; a widespread resort to the "cash and carry" method of selling goods; and, more incidentally than intentionally, a few middlemen left with no goods to handle, while in other cases the middlemen have increased in number.

The municipal markets which seem to be on a permanent basis, started during the war, are certainly few, though there are occasional instances of such. The limits of the municipal market appear to be rather closely circumscribed. At one time the producers do not find it worth while; at another time the consumers get tired of going for produce. In many parts of the country the operation of a municipal market is limited by the climate. Altogether it does not seem that such markets have made revolutionary gains under the war conditions, yet they have made some gains in favor.

Coöperative delivery systems are reported from many states, but not in great numbers. They are logical and economical, but the present crisis has failed to develop them generally.

The "cash and carry" plan of getting groceries and meat has, at least for the time, made remarkable headway. The "cash" portion of the plan has little against it, and much in favor. Not so much can be said for the "carry." It is a resort to a self-sufficing economy. While a housewife may pride herself on saving a dollar or two a week by going after household supplies, it is likely that the debit side of the account, in the nature of lost time, car fare, and weariness, more than offset the credit. The chain store seems to be gaining ground, and with that "cash and carry" becomes tolerable.

The middlemen are with us in about the usual numbers. Coal jobbers are much more numerous, due to the regulations under which it becomes profitable to take out a license. On the contrary, the wool brokers have had little or nothing to do, the gov-



ernment management being such as to make it possible to do business without them. But on the whole the middlemen are doing as much as ever of the work and for the most part they are, so far as is known, getting as good pay as ever. In some lines of work, probably in nearly all, the costs of doing business have risen and the charges have correspondingly increased. In the grain elevator business it was believed in the early months of regulation that the stability of prices would result in narrowing the margins of the local buyer. On the contrary, the local buyer has found the hazards fully as great as usual, and has widened his margins.

Under control of marketing processes, mention must be made of standardization and grading, work which was in progress before the present emergency. This is mainly in the hands of the Bureau of Markets, and it has been greatly expanded during the past few years. Regulations concerning perishables have been put into practice. For example, complaints are often made concerning the condition of goods consigned. The Bureau of Markets will look into the matter on request. Again there is complaint that food stuff is destroyed in order to raise the price of the remaining amount. Under the law at present this is a punishable offense.

That much education of a valuable nature has resulted from the market regulations of the past few months is beyond doubt. We have learned why, under present arrangements, it is necessary for the milk distributor to receive nearly as much of the retail price of milk as does the farmer. The facts have been brought to light. It is evident that competition cannot eliminate the enormous duplication and waste involved. The public has at least gone far enough to discuss the possibility of a more economical system. But curiously enough, or perhaps it would be better to say, naturally enough, after all the contention over milk prices, about the same percentage of the final price goes to each of the contending parties. It is not greatly unlike this in other lines. There has been a readjustment to a higher level. The governmental effort has resulted in greater stability than would otherwise have obtained during the transition, but the relation of buyer and seller is for the most part about what it was before. The great exceptions to this have been noted above.

#### *Secondary Effects*

The story of the effects of the government price control has not been told until it is noticed that many farmers' organizations

have been awakened as never before in a generation. Some of them have increased their memberships by 100 or 200 per cent. Others have taken on strength as well as members and have made themselves felt as producers. Furthermore, a large number of these organizations have federated and are determined to be heard when questions pertaining to farming are up for discussion. On the contrary, other organizations have been weakened. Where there has been substantially nothing left for the organization to do it has naturally become inactive. This is true of many grain-selling companies.

Outside of this movement is another which is by no means negligible. In several states the farmers are in politics as they seldom have been before. The movement was not started by government price and market control, but it was stimulated very much by it. The feeling is strong that farmers were not treated fairly by the governing bodies; for example, with respect to wheat prices, and to a lesser extent with respect to meat prices. While the remedy may not appear on the surface to fit the case, it is in the main a determination to gain a greater measure of control in the government in order that in the future an appreciation of the farmers' point of view will not be lacking on the part of those in charge of state affairs.

Perhaps the most fundamental statement that can be made is, after all, that the government has not been trying to reform marketing methods. Rather, it has been trying to control the prices of certain essential commodities. Out of the hastily made program of price control we may be able to get as by-products some results that should be made permanent. We know more about markets than ever before. We have them under social scrutiny, license, and control. We have not, as yet, reduced the charges of many middlemen, much less put the men out of business. We are testing the antitrust law and, let us hope, establishing surer footing for collective bargaining. We have arrived at a point at which it is expedient to take stock of paraphernalia and see what is useful and what is not in a rearranged program. We have had a shaking up, not a regeneration. What we have accomplished is unquestionably the avoidance of many things which if left to themselves would have been worse.